

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-10 NSAE-00 RSC-01 FAA-00 L-03 TRSE-00

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E.O. 11652: N/A

TAGS: ETRN, EIND, CA

SUBJECT: AEROSPACE INDUSTRY: CANADAIR/DE HAVILLAND PROPOSED
ACQUISITION

REF: OTTAWA 1601

1. CANADAIR OFFICIALS AT MONTREAL ADVISED TCO
MAY 31 GENERAL DYNAMICS (GD) NOT PRESENTLY
DISPOSED IN PRINCIPLE RESIST ACQUISITION BY GOC.
PRICE TO BE PAID WILL BE MAIN ISSUE SO FAR AS
GD IS CONCERNED. THEY INDICATED BOOK VALUE
CONSIDERABLY IN EXCESS OF \$32 MILLION SUGGESTED
IN PRESS COVERAGE GILLESPIE ANNOUNCEMENT, BUT NO
SPECIFIC NET VALUATION OF ASSETS (WHICH INCLUDE
ASBESTOS MINE IN QUEBEC AND ALL TERRAIN VEHICLES
PLANT AT EDMONTON) YET MADE. SUCH A FIGURE IS NOW
BEING DEVELOPED BY ST. LOUIS HEAD OFFICE AND MAY
REQUIRE SOME TIME TO FINALIZE. HOWEVER, FIRST MEETING
BETWEEN GOC AND TOP LEVEL GD MANAGEMENT IS TENTATIVELY
SCHEDULED FOR JUNE 8.

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2. CANADAIR SOURCES SURPRISED BY TIMING AND NATURE

OF ANNOUNCEMENT WHICH WAS ANTICIPATED CLOSER TO JUNE 28 (DATE ON WHICH GOC OPTION ON DE HAVILLAND RUNS OUT) AND WERE DISAPPOINTED BY ABSENCE PRIOR CONSULTATION WITH COMPANY. THEY INDICATED POSSIBLE ACQUISITION HAD BEEN PUBLICLY RAISED TWO YEARS AGO BY THEN TRANSPORT MINISTER JAMIESON AND HAD BEEN SUBJECT THEN OF BRIEF, HIGHLY GENERALIZED AND INCONCLUSIVE DISCUSSION BETWEEN ST. LOUIS OFFICIALS WITH JAMIESON AND OTHER CABINET MEMBERS. HOWEVER, ON MAY 27 COMPANY RECEIVED ONLY 30 MINUTES NOTICE ANNOUNCEMENT TO BE MADE. LIKEWISE THEY SHOWED CONSIDERABLE ANNOYANCE AT TONE OF GOC ANNOUNCEMENT WHICH ALLEGED NON-COOPERATION WITH RATIONALIZATION EFFORTS OF GOC AND COMPETITION OF SUBSIDIARIES WITH PARENT COMPANIES. THEY MAINTAINED THESE CHARACTERIZATIONS MAY APPLY TO DE HAVILLAND BUT NOT TO CANADAIR WHICH THEY STATE IS WELL KNOWN AMONG CIVIL SERVANTS RESPONSIBLE FOR AEROSPACE INDUSTRY TO HAVE FUNCTIONED AS A "GOOD CORPORATE CITIZEN" AND ONE WHICH HAS NOT PAID DIVIDENDS TO PARENT COMPANY FOR MANY YEARS. SHOWED TCO DRAFT PRESS RELEASE TO BE ISSUED SHORTLY AND PROMISED SUPPLY EMBASSY COPY OF FINAL VERSION.

3. THERE HAS BEEN PRESS SPECULATION (E.G. MONTREAL STAR, MAY 30) THAT GOC STRATEGY INVOLVES INTENT GET BOEING INTO EFFECTIVE CONTROL OF NEW COMBINED ENTITY WITH MINORITY FINANCIAL INTEREST. THIS SPECULATION BASED ON ASSUMPTION BOEING WILL GET LRPA CONTRACT WHICH IN TURN WILL INVOLVE MAJOR SUBCONTRACTING AT CANADAIR PLANT. CANADAIR OFFICIALS INDICATED SUCH RUMORS HAD BEEN IN EXISTENCE FOR SOME TIME BUT THEY DISCOUNTED THEM AS INCONSISTENT WITH CANADIAN CONTROL THEME PRESUMABLY MOTIVATING GOC. FURTHER, THEY SUGGESTED REGARDLESS WHETHER BOEING OR LOCKHEED GET LRPA CONTRACT IT WILL BE ON BASIS SUBSTANTIAL CANADIAN OFFSET MOST OF WHICH WILL BE UNDERTAKEN CANADAIR PLANT REGARDLESS OF OWNERSHIP.

4. LAST WEEK'S ANNOUNCEMENT EMPHASIZED THAT INTENT LIMITED OFFICIAL USE

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OF GOC WAS NOT TO OPERATE NEW ENTITY ON OTHER THAN INTERIM BASIS BUT TO TURN PACKAGE OVER TO CANADIAN INVESTORS. CANADAIR OFFICIALS SAW NO PROBLEM ATTRACTING INVESTORS IF FINANCIAL TERMS WERE RIGHT. THEY POINTED OUT THAT THERE WAS AN IMPRESSIVE NUMBER OF CANADIAN MILLIONAIRES WHO WOULD BE INTERESTED IN TAKING ON SUCH A VENTURE AND NOT MERELY FOR TAX PURPOSES. NEEDLESS TO SAY, THE PRICE EVENTUALLY

PAID FOR CANADAIIR WILL HAVE A SIGNIFICANT BEARING ON WHAT THE GOC CAN OFFER. (MONTREAL GAZETTE OF MAY 28 CONTAINED QUOTATIONS FROM CHARLES RATHGLETS OF COMSTOCK INTERNATIONAL - SEE OTTAWA A-596, NOVEMBER 14, 1973 - AND L.D. CLARKE OF STAR AEROSPACE PRODUCTS LTD. EXPRESSING POSSIBLE INTEREST.)

5. COMMENT: GOC POLICY RE THE PRODUCTION OF THE DHC-7 STOL AIRCRAFT IS INTIMATELY INVOLVED WITH DECISION ACQUIRE CANADAIIR AND DE HAVILLAND. GOC HAS INVESTED HEAVILY IN DEVELOPMENT OF THIS AIRCRAFT, BUT ITS MARKET POTENTIALITIES ARE FAR FROM CLEAR. LATE LAST WEEK SIR ARNOLD HALL, CHAIRMAN OF U.K. HAWKER-SIDDELEY GROUP LTD. PUBLICLY STATED IN PRESS INTERVIEW (TORONTO GLOBE AND MAIL JUNE 1) THAT IN ITS VIEW MARKET IS NOT READY FOR THIS AIRCRAFT AND FOR THIS REASON HAWKER-SIDDELEY NOT WILLING TO PUT DHC-7 INTO PRODUCTION. HE INDICATED THAT HAWKER-SIDDELEY WAS LOOKING AT ITS OWN SHORT-HAUL JET (HS-146 WHICH WILL OPERATE FROM 4000 FOOT RUNWAYS CARRYING 100 PASSENGERS) BUT HAS MADE NO DECISION RE PRODUCTION. HALL EMPHASIZED THE HS-146 WAS NOT COMPETITIVE WITH THE DHC-7 WHICH WILL BE TURBO-PROP, OPERATING FROM 2000 FOOT RUNWAYS, AND WILL ACCOMMODATE 48 PASSENGERS. HOWEVER, SENIOR MOT POLICY OFFICIAL, WHO IS SKEPTICAL OVER WISDOM ATTEMPTING MAINTAIN CANADIAN AIRCRAFT MANUFACTURING INDUSTRY OVER LONGER TERM, TOLD TCO JUNE 3 THAT BOEING MARKETING PEOPLE ARE OPTIMISTIC ABOUT DHC-7 AND INTERESTED IN PROMOTING IT - WITHOUT BEING INVOLVED IN MANUFACTURING IT - AS PART OF THEIR DIVERSIFICATION EFFORT. WHILE CAUTIONING THAT GOC HAS NOT YET MADE FINAL DECISION RE PRODUCTION DHC-7, LIMITED OFFICIAL USE

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HE WAS OPTIMISTIC IT WOULD BE MADE AND ANNOUNCED SHORTLY BY PRIME MINISTER TRUDEAU.

6. AIR TRANSPORT ASSOCIATION OF CANADA OFFICIAL ON JUNE 1 ADVISED HE IS APPREHENSIVE ABOUT GOC DECISION ESTABLISH THESE FIRMS AS CANADIAN OWNED INDUSTRY. HIS CONCERNS WERE AS SUGGESTED PARA 6 REFTEL AND RELATE TO LONGER TERM POSSIBILITY SMALLER CANADIAN AIRLINES WILL BE RESTRICTED IN FUTURE CHOICE OF EQUIPMENT THROUGH PROTECTIVE DEVICES EMPLOYED TO ENCOURAGE CANADIAN PRODUCTION. PORTER

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